

**CITY OF SMITH CENTER**

**Smith Center, Kansas**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**December 31, 2010**

**MAPES & MILLER  
Certified Public Accountants  
Phillipsburg, Kansas 67661**

**CITY OF SMITH CENTER**

**City Council**

**December 31, 2010**

**Trey Joy, Mayor**

**Adam Rentschler  
Fletcher Bolton  
Lynn Zierlein**

**Dave Conaway  
Ron Griffith**

**Rhonda Hyman  
Terri Jones**

**City Clerk  
City Treasurer**

**CITY OF SMITH CENTER  
Smith Center, Kansas**

**CONTENTS**

		<b>Pages</b>
	<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1-3</b>
<b>Statement 1</b>	<b>SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH</b>	<b>4-5</b>
<b>Statement 2</b>	<b>SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET</b>	<b>6</b>
<b>Statement 3</b>	<b>STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET</b>	<b>7-29</b>
<b>Statement 4</b>	<b>SUMMARY OF CASH RECEIPTS AND CASH DISBURSEMENTS - AGENCY FUNDS</b>	<b>30</b>
	<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>31-40</b>
 <b>SINGLE AUDIT SECTION</b>		
	<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>41-42</b>
	<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	<b>43-44</b>
<b>Schedule 1</b>	<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>45</b>
<b>Schedule 2</b>	<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>46-50</b>



# MAPES & MILLER

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## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Smith Center, Kansas

We have audited the accompanying financial statements of the City of Smith Center, Kansas, as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the City's primary government, as listed in the table of contents. These financial statements are the responsibility of the City of Smith Center, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the City of Smith Center, Kansas has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

Mayor and City Council  
City of Smith Center, Kansas  
September 8, 2011  
Page Two

In our opinion, because of the omission of the component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Smith Center, Kansas, as of December 31, 2010, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2011, on our consideration of the City of Smith Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of City of Smith Center taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**This report is intended solely for the information and use of the governing body and management of the City of Smith Center, Kansas, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, the cognizant federal agency and any other federal and state agencies to whose jurisdiction the City is subject, and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City Council, is a matter of public record.**

**Respectfully submitted,**

*Mapes & Miller*

**Certified Public Accountants**

**September 8, 2011  
Phillipsburg, Kansas**

**CITY OF SMITH CENTER**  
Smith Center, Kansas

Statement 1

**SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH**  
For The Year Ended December 31, 2010

<b>FUND</b>	<b>Beginning Unencumbered Cash Balance</b>	<b>Prior Year Cancelled Encumbrances</b>	<b>Cash Receipts</b>	<b>Expenditures</b>	<b>Ending Unencumbered Cash Balance</b>	<b>Add Outstanding Encumbrances and Accounts Payable</b>	<b>Ending Cash Balance</b>
<b>Governmental Type Funds:</b>							
General Fund							
General Operating Fund	\$ 91,456	\$ -	\$ 781,944	\$ 820,198	\$ 53,202	\$ 35,162	\$ 88,364
Special Revenue Funds							
Industrial Development Fund	23,628	-	7,839	6,000	25,467	-	25,467
Library Fund	1,300	-	50,935	50,171	2,064	-	2,064
Recreation Fund	-	-	23,264	23,264	-	-	-
Special Street & Highway Fund	34,118	-	43,347	58,820	18,645	-	18,645
Special Parks & Recreation Fund	11,350	-	8,189	5,358	14,181	-	14,181
Employee Benefit Fund	110,240	-	229,555	202,755	137,040	5,780	142,820
Equipment Reserve Fund	89,132	-	50,000	15,600	123,532	-	123,532
Economic Development Fund	35,732	-	150,314	68,727	117,319	1,949	119,268
Golf Course Donation Fund	8,132	-	2,200	5,592	4,740	-	4,740
Playground Equipment Fund	3,406	-	-	573	2,833	-	2,833
Airport Grant Fund	(2,091,307)	138,749	2,135,428	471,272	(288,402) *	288,402	-
Debt Service Funds							
Bond & Interest Fund	-	-	13,414	13,414	-	-	-
<b>Proprietary Type Funds:</b>							
Enterprise Funds							
Water Fund	78,618	-	385,345	397,201	66,762	9,661	76,423
Water Improvement Fund	163,688	-	58,475	31,400	190,763	26,784	217,547
Airport Fund	2,040	154,381	84,347	230,124	10,644	21,385	32,029
Golf Course Fund	323	-	63,121	63,004	440	-	440
Waste Disposal Fund	359,191	-	327,110	258,882	427,419	1,476	428,895
<b>Fiduciary Type Funds:</b>							
Private Purpose Trust Funds							
Revolving Loan Grant Fund	130,931	-	33,241	-	164,172	-	164,172
Economic Development Revolving Loan Fund	30,529	-	60,029	30,988	59,570	-	59,570
<b>Total Primary Government (Excluding Agency Funds)</b>	<b>\$ (917,493)</b>	<b>\$ 293,130</b>	<b>\$ 4,508,097</b>	<b>\$ 2,753,343</b>	<b>\$ 1,130,391</b>	<b>\$ 390,599</b>	<b>\$ 1,520,990</b>

\* See Note 5 (Cash Basis Exception)

The notes to the financial statements are an integral part of this statement.

**CITY OF SMITH CENTER**  
**Smith Center, Kansas**

**Statement 1**  
**(Cont.)**

**SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH**  
**For The Year Ended December 31, 2010**

**Composition of Cash**

Cash On Hand	\$ 100
People's Bank	
Checking Accounts	28,441
Now Accounts	-
Savings	725,321
Certificates of Deposit	100,000
First National Bank	
Checking Accounts	19,473
Now Accounts	556,187
Certificates of Deposit	<u>100,000</u>
 Total Cash	 1,529,522
 Agency Funds Per Statement 4	 <u>(8,532)</u>
 Total Primary Government (Excluding Agency Funds)	 <u><u>\$ 1,520,990</u></u>

The notes to the financial statements are an integral part of this statement.



CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 2

**SUMMARY EXPENDITURES - ACTUAL AND BUDGET**  
(Budgeted Funds Only)  
For the Year Ended December 31, 2010

FUNDS	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
<b>Governmental Type Funds:</b>					
General Fund					
General Operating Fund	\$ 1,000,378	\$ -	\$ 1,000,378	\$ 820,198	\$ (180,180)
<b>Special Revenue Funds</b>					
Industrial Development Fund	32,034	-	32,034	6,000	(26,034)
Library Fund	54,019	-	54,019	50,171	(3,848)
Recreation Fund	64,884	-	64,884	23,264	(41,620)
Special Street & Highway Fund	93,335	-	93,335	58,820	(34,515)
Special Parks & Recreation Fund	24,039	-	24,039	5,358	(18,681)
Employee Benefit Fund	313,250	-	313,250	202,755	(110,495)
Equipment Reserve Fund	172,280	-	172,280	15,600	(156,680)
Economic Development Fund	194,904	-	194,904	68,727	(126,177)
<b>Debt Service Funds</b>					
Bond & Interest Fund	22,922	-	22,922	13,414	(9,508)
<b>Proprietary Type Funds:</b>					
Enterprise Funds					
Water Fund	457,440	-	457,440	397,201	(60,239)
Airport Fund	270,382	-	270,382	230,124	(40,258)
Golf Course Fund	65,084	-	65,084	63,004	(2,080)
Waste Disposal Fund	679,191	-	679,191	258,882	(420,309)

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

GENERAL OPERATING FUND

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Ad Valorem Tax	\$ 319,412	\$ 321,800	\$ (2,388)
Delinquent Tax	21,588	21,613	(25)
Motor Vehicle Tax	63,281	63,281	-
Recreational Vehicle Tax	968	967	1
16/20M Vehicle Tax	789	789	-
Excise Tax	3,206	3,206	-
Intangibles Tax	39,851	39,851	-
Highway Connecting Links	9,528	9,500	28
Local Alcoholic Liquor Tax	8,188	10,000	(1,812)
Franchise Tax	143,608	175,000	(31,392)
Licenses & Permits	2,920	2,500	420
Services	1,015	2,000	(985)
Fines	4,205	6,500	(2,295)
Key Deposits	875	1,000	(125)
Vehicle Identification Number Receipts	920	1,500	(580)
Interest on Idle Funds	4,139	5,000	(861)
Swimming Pool & Park Concessions	11,865	12,500	(635)
Rents	1,391	2,000	(609)
Reimbursements	98,496	87,000	11,496
Miscellaneous Receipts	1,124	4,000	(2,876)
Fire Department Receipts	17,334	17,000	334
Local Grants	10,791	12,500	(1,709)
Sale of Property	525	1,000	(475)
Transportation Fares	2,491	20,000	(17,509)
Donations	20	-	20
Incoming Transfers			
Bond & Interest Fund	13,414	13,415	(1)
Waste Disposal Fund	-	75,000	(75,000)
<b>Total Cash Receipts</b>	<b>781,944</b>	<b>\$ 908,922</b>	<b>\$ (126,978)</b>
<b>EXPENDITURES</b>			
General Government			
Personal Services	180,026	\$ 224,600	\$ (44,574)
Contractual Services	126,696	112,950	13,746
Commodities	50,503	54,250	(3,747)
Capital Outlay	27,438	19,500	7,938
<b>Total General Government</b>	<b>384,663</b>	<b>411,300</b>	<b>(26,637)</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF SMITH CENTER**  
Smith Center, Kansas

Statement 3  
(Cont.)

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For The Year Ended December 31, 2010

**GENERAL OPERATING FUND (Cont.)**

	Actual	Budget	Variance Over (Under)
<b>Municipal Court &amp; Police Department</b>			
Personal Services	\$ 92,107	\$ 93,800	\$ (1,693)
Contractual Services	16,590	19,000	(2,410)
Commodities	12,430	16,950	(4,520)
Capital Outlay	10,679	14,000	(3,321)
	<u>131,806</u>	<u>143,750</u>	<u>(11,944)</u>
<b>Fire Department</b>			
Contractual Services	26,872	37,000	(10,128)
Commodities	5,470	8,000	(2,530)
Capital Outlay	16,203	35,500	(19,297)
	<u>48,545</u>	<u>80,500</u>	<u>(31,955)</u>
<b>Street Department</b>			
Personal Services	71,944	72,900	(956)
Contractual Services	10,640	14,150	(3,510)
Commodities	63,538	79,750	(16,212)
Capital Outlay	20,423	34,500	(14,077)
	<u>166,545</u>	<u>201,300</u>	<u>(34,755)</u>
<b>Park Department</b>			
Personal Services	257	600	(343)
Contractual Services	7,979	9,275	(1,296)
Commodities	808	2,750	(1,942)
Capital Outlay	1,851	4,000	(2,149)
	<u>10,895</u>	<u>16,625</u>	<u>(5,730)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

GENERAL OPERATING FUND (Cont.)

	Actual	Budget	Variance Over (Under)
Swimming Pool			
Personal Services	\$ 27,629	\$ 28,500	\$ (871)
Contractual Services	4,920	7,025	(2,105)
Commodities	10,140	10,550	(410)
Capital Outlay	<u>-</u>	<u>7,250</u>	<u>(7,250)</u>
Total Swimming Pool	<u>42,689</u>	<u>53,325</u>	<u>(10,636)</u>
Street Lighting			
Contractual Services	<u>30,605</u>	<u>42,500</u>	<u>(11,895)</u>
Audit & Accounting			
Contractual Services	<u>4,450</u>	<u>7,000</u>	<u>(2,550)</u>
Other Expenditures			
Miscellaneous Expenditures	<u>-</u>	<u>44,078</u>	<u>(44,078)</u>
Total Expenditures	<u>820,198</u>	<u>\$ 1,000,378</u>	<u>\$ (180,180)</u>
Cash Receipts Over (Under) Expenditures	(38,254)		
UNENCUMBERED CASH, January 1, 2010	<u>91,456</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 53,202</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

INDUSTRIAL DEVELOPMENT FUND

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Ad Valorem Tax	\$ 6,069	\$ 6,403	\$ (334)
Delinquent Tax	425	25	400
Motor Vehicle Tax	1,309	1,357	(48)
Recreational Vehicle Tax	19	18	1
16/20M Vehicle Tax	16	13	3
Excise Tax	1	-	1
Neighborhood Revitalization Rebate	-	49	(49)
<b>Total Cash Receipts</b>	<u>7,839</u>	<u>\$ 7,865</u>	<u>\$ (26)</u>
<b>EXPENDITURES</b>			
Allocations	6,000	\$ 27,000	\$ (21,000)
Reimbursed Expenditures	-	4,934	(4,934)
Miscellaneous Expenditures	-	100	(100)
<b>Total Expenditures</b>	<u>6,000</u>	<u>\$ 32,034</u>	<u>\$ (26,034)</u>
Cash Receipts Over (Under) Expenditures	1,839		
UNENCUMBERED CASH, January 1, 2010	<u>23,628</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 25,467</u>		

The notes to the financial statements are an integral part of this statement.

**CITY OF SMITH CENTER  
Smith Center, Kansas**

**Statement 3  
(Cont.)**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010**

**LIBRARY FUND**

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>CASH RECEIPTS</b>			
Ad Valorem Tax	\$ 39,438	\$ 41,619	\$ (2,181)
Delinquent Tax	2,759	500	2,259
Motor Vehicle Tax	8,509	8,822	(313)
Recreational Vehicle Tax	124	118	6
16/20M Vehicle Tax	101	87	14
Excise Tax	4	-	4
Neighborhood Revitalization Rebate	<u>-</u>	<u>320</u>	<u>(320)</u>
 Total Cash Receipts	 <u>50,935</u>	 <u>\$ 51,466</u>	 <u>\$ (531)</u>
 <b>EXPENDITURES</b>			
Personal Services	44,294	\$ 43,500	\$ 794
Contractual Services	5,377	8,000	(2,623)
Appropriation to Library Board	<u>500</u>	<u>2,519</u>	<u>(2,019)</u>
 Total Expenditures	 <u>50,171</u>	 <u>\$ 54,019</u>	 <u>\$ (3,848)</u>
 Cash Receipts Over (Under) Expenditures	 764		
 UNENCUMBERED CASH, January 1, 2010	 <u>1,300</u>		
 UNENCUMBERED CASH, December 31, 2010	 <u>\$ 2,064</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

RECREATION FUND

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Ad Valorem Tax	\$ 18,332	\$ 19,209	\$ (877)
Delinquent Tax	1,207	100	1,107
Motor Vehicle Tax	3,065	4,072	(1,007)
Recreational Vehicle Tax	628	55	573
16/20M Vehicle Tax	31	40	(9)
Excise Tax	1	-	1
Programs	-	25,000	(25,000)
Neighborhood Revitalization Rebate	-	147	(147)
<b>Total Cash Receipts</b>	<u>23,264</u>	<u>\$ 48,623</u>	<u>\$ (25,359)</u>
<b>EXPENDITURES</b>			
Personal Services	6,320	\$ 8,250	\$ (1,930)
Contractual Services	100	2,900	(2,800)
Capital Outlay	351	3,000	(2,649)
Appropriation to Recreation Commission	16,493	15,000	1,493
Programs	-	35,500	(35,500)
Miscellaneous Expenditures	-	234	(234)
<b>Total Expenditures</b>	<u>23,264</u>	<u>\$ 64,884</u>	<u>\$ (41,620)</u>
Cash Receipts Over (Under) Expenditures	-		
UNENCUMBERED CASH, January 1, 2010	<u>-</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ -</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

SPECIAL STREET AND HIGHWAY FUND

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Special Highway Tax	\$ 43,347	\$ 45,000	\$ (1,653)
<b>EXPENDITURES</b>			
Personal Services	16,927	\$ 25,000	\$ (8,073)
Contractual Services	-	11,250	(11,250)
Commodities	41,893	47,085	(5,192)
Capital Outlay	-	10,000	(10,000)
Total Expenditures	<u>58,820</u>	<u>\$ 93,335</u>	<u>\$ (34,515)</u>
Cash Receipts Over (Under) Expenditures	(15,473)		
UNENCUMBERED CASH, January 1, 2010	<u>34,118</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 18,645</u>		

The notes to the financial statements are an integral part of this statement.



CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

SPECIAL PARKS AND RECREATION FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>CASH RECEIPTS</b>			
Local Alcoholic Liquor Tax	\$ 8,189	\$ 8,000	\$ 189
<b>EXPENDITURES</b>			
Personal Services	5,358	\$ 11,039	\$ (5,681)
Contractual Services	-	2,000	(2,000)
Capital Outlay	-	10,000	(10,000)
Miscellaneous Expenditures	-	1,000	(1,000)
Total Expenditures	5,358	\$ 24,039	\$ (18,681)
Cash Receipts Over (Under) Expenditures	2,831		
UNENCUMBERED CASH, January 1, 2010	11,350		
UNENCUMBERED CASH, December 31, 2010	\$ 14,181		

The notes to the financial statements are an integral part of this statement.

**CITY OF SMITH CENTER**  
**Smith Center, Kansas**

Statement 3  
(Cont.)

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
**For The Year Ended December 31, 2010**

**EMPLOYEE BENEFIT FUND**

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>CASH RECEIPTS</b>			
Ad Valorem Tax	\$ 176,421	\$ 186,192	\$ (9,771)
Delinquent Tax	10,683	1,500	9,183
Motor Vehicle Tax	32,878	34,097	(1,219)
Recreational Vehicle Tax	479	457	22
16/20M Vehicle Tax	388	335	53
Excise tax	16	-	16
Reimbursements	8,690	8,500	190
Neighborhood Revitalization Rebate	<u>-</u>	<u>1,235</u>	<u>(1,235)</u>
 Total Cash Receipts	 <u>229,555</u>	 <u>\$ 232,316</u>	 <u>\$ (2,761)</u>
 <b>EXPENDITURES</b>			
Social Security & Medicare Tax	38,713	\$ 52,000	\$ (13,287)
Retirement	29,571	43,000	(13,429)
Workman's Compensation	31,592	44,750	(13,158)
Health Insurance	91,196	150,000	(58,804)
Unemployment Tax	<u>11,683</u>	<u>23,500</u>	<u>(11,817)</u>
 Total Expenditures	 <u>202,755</u>	 <u>\$ 313,250</u>	 <u>\$ (110,495)</u>
 Cash Receipts Over (Under) Expenditures	 26,800		
 UNENCUMBERED CASH, January 1, 2010	 <u>110,240</u>		
 UNENCUMBERED CASH, December 31, 2010	 <u>\$ 137,040</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

EQUIPMENT RESERVE FUND

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Incoming Transfer			
Waste Disposal Fund	<u>50,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>
EXPENDITURES			
Capital Outlay	<u>15,600</u>	<u>\$ 172,280</u>	<u>\$ (156,680)</u>
Cash Receipts Over (Under) Expenditures	34,400		
UNENCUMBERED CASH, January 1, 2010	<u>89,132</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 123,532</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For The Year Ended December 31, 2010

**ECONOMIC DEVELOPMENT FUND**

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Sales Tax	\$ 116,760	\$ 110,000	\$ 6,760
Compensating Use Tax	9,873	12,000	(2,127)
Miscellaneous Receipts	2,960	-	2,960
Reimbursements	10	1,000	(990)
Donations	711	1,500	(789)
State Aid	20,000	-	20,000
<b>Total Cash Receipts</b>	<u>150,314</u>	<u>\$ 124,500</u>	<u>\$ 25,814</u>
<b>EXPENDITURES</b>			
Personal Services	34,229	\$ 36,000	\$ (1,771)
Contractual Services	33,864	93,404	(59,540)
Commodities	624	-	624
Capital Outlay	10	-	10
Miscellaneous Expenditures	-	5,500	(5,500)
Outgoing Transfer			
Economic Development Revolving Loan Fund	-	60,000	(60,000)
<b>Total Expenditures</b>	<u>68,727</u>	<u>\$ 194,904</u>	<u>\$ (126,177)</u>
<b>Cash Receipts Over (Under) Expenditures</b>	81,587		
<b>UNENCUMBERED CASH, January 1, 2010</b>	<u>35,732</u>		
<b>UNENCUMBERED CASH, December 31, 2010</b>	<u>\$ 117,319</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For The Year Ended December 31, 2010

GOLF COURSE DONATION FUND

	<u>Actual</u>
<b>CASH RECEIPTS</b>	
Donations	\$       200
Local Grants	<u>2,000</u>
Total Cash Receipts	<u>2,200</u>
 <b>EXPENDITURES</b>	
Commodities	<u>5,592</u>
 Cash Receipts Over (Under) Expenditures	(3,392)
 UNENCUMBERED CASH, January 1, 2010	<u>8,132</u>
 UNENCUMBERED CASH, December 31, 2010	<u><u>\$       4,740</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For The Year Ended December 31, 2010

PLAYGROUND EQUIPMENT FUND

	<u>Actual</u>
CASH RECEIPTS	<u>\$ -</u>
EXPENDITURES	
Capital Outlay	<u>573</u>
Cash Receipts Over (Under) Expenditures	(573)
UNENCUMBERED CASH, January 1, 2010	<u>3,406</u>
UNENCUMBERED CASH, December 31, 2010	<u><u>\$ 2,833</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For The Year Ended December 31, 2010

AIRPORT GRANT FUND

	<u>Actual</u>
<b>CASH RECEIPTS</b>	
Federal Grant	\$ 1,131,618
State Grant	989,592
Incoming Transfer	
Airport Fund	<u>14,218</u>
Total Cash Receipts	<u>2,135,428</u>
 <b>EXPENDITURES</b>	
Contractual Services	256,323
Capital Outlay	<u>214,949</u>
Total Expenditures	<u>471,272</u>
 Cash Receipts Over (Under) Expenditures	1,664,156
 UNENCUMBERED CASH, January 1, 2010	(2,091,307)
 Prior Year Cancelled Encumbrances	<u>138,749</u>
 UNENCUMBERED CASH, December 31, 2010	<u><u>\$ (288,402) *</u></u>

\* See Note 5 (Cash Basis Exception)

The notes to the financial statements are an integral part of this statement.

**CITY OF SMITH CENTER  
Smith Center, Kansas**

**Statement 3  
(Cont.)**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010**

**BOND AND INTEREST FUND**

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>CASH RECEIPTS</b>			
Delinquent Tax	\$ 3,318	\$ 1,200	\$ 2,118
Motor Vehicle Tax	9,899	11,336	(1,437)
Recreational Vehicle Tax	121	152	(31)
16/20M Vehicle Tax	72	111	(39)
Excise Tax	4	-	4
Neighborhood Revitalization Rebate	-	411	(411)
Interest on Idle Funds	-	2,500	(2,500)
	<u>13,414</u>	<u>\$ 15,710</u>	<u>\$ (2,296)</u>
<b>EXPENDITURES</b>			
Outgoing Transfer			
General Operating Fund	<u>13,414</u>	<u>\$ 22,922</u>	<u>\$ (9,508)</u>
Cash Receipts Over (Under) Expenditures	-		
UNENCUMBERED CASH, January 1, 2010	<u>-</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ -</u>		

The notes to the financial statements are an integral part of this statement.



CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

WATER FUND

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Water Department			
Water Sales	\$ 292,118	\$ 305,000	\$ (12,882)
Miscellaneous Receipts	4,784	6,000	(1,216)
Reimbursements	20,136	5,000	15,136
Installation Charges	2,150	2,500	(350)
Interest on Idle Funds	7,682	5,000	2,682
Improvements	58,475	55,000	3,475
	<u>385,345</u>	<u>\$ 378,500</u>	<u>\$ 6,845</u>
<b>EXPENDITURES</b>			
Production			
Contractual Services	21,806	\$ 36,000	\$ (14,194)
Commodities	787	4,000	(3,213)
Capital Outlay	11,025	4,000	7,025
	<u>33,618</u>	<u>44,000</u>	<u>(10,382)</u>
Transmission & Distribution			
Personal Services	86,951	83,000	3,951
Contractual Services	5,366	18,750	(13,384)
Commodities	59,508	48,500	11,008
Capital Outlay	560	10,000	(9,440)
	<u>152,385</u>	<u>160,250</u>	<u>(7,865)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

WATER FUND (Cont.)

	Actual	Budget	Variance Over (Under)
<b>EXPENDITURES (Cont.)</b>			
Administration & General			
Personal Services	\$ 33,964	\$ 38,400	\$ (4,436)
Contractual Services	97,852	186,450	(88,598)
Commodities	2,030	4,750	(2,720)
Capital Outlay	16,998	17,918	(920)
Total Administration & General	150,844	247,518	(96,674)
Other Expenditures			
Postage	411	500	(89)
Miscellaneous Expenditures	1,168	5,172	(4,004)
Key Returns	300	-	300
Total Other Expenditures	1,879	5,672	(3,793)
Outgoing Transfer			
Water Improvement Fund	58,475	-	58,475
Total Expenditures	397,201	\$ 457,440	\$ (60,239)
Cash Receipts Over (Under) Expenditures	(11,856)		
UNENCUMBERED CASH, January 1, 2010	78,618		
UNENCUMBERED CASH, December 31, 2010	\$ 66,762		

The notes to the financial statements are an integral part of this statement.

**CITY OF SMITH CENTER  
Smith Center, Kansas**

**Statement 3  
(Cont.)**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For The Year Ended December 31, 2010**

**WATER IMPROVEMENT FUND**

	<u>Actual</u>
<b>CASH RECEIPTS</b>	
Incoming Transfer	
Water Fund	<u>\$ 58,475</u>
<b>EXPENDITURES</b>	
Contractual Services	<u>31,400</u>
Cash Receipts Over (Under) Expenditures	27,075
UNENCUMBERED CASH, January 1, 2010	<u>163,688</u>
UNENCUMBERED CASH, December 31, 2010	<u><u>\$ 190,763</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For The Year Ended December 31, 2010

**AIRPORT FUND**

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Hanger Rent	\$ 7,005	\$ 8,000	\$ (995)
Farm Ground Rent	3,440	5,000	(1,560)
Miscellaneous Receipts	697	1,500	(803)
Fuel Sales	29,008	50,000	(20,992)
County Allocation	795	1,500	(705)
Federal Grant	36,702	165,000	(128,298)
Local Grant	6,700	-	6,700
Incoming Transfer			
Waste Disposal Fund	-	25,000	(25,000)
	<u>84,347</u>	<u>\$ 256,000</u>	<u>\$ (171,653)</u>
<b>EXPENDITURES</b>			
Contractual Services	55,407	\$ 78,218	\$ (22,811)
Commodities	23,492	35,000	(11,508)
Capital Outlay	137,007	152,970	(15,963)
Miscellaneous Expenditures	-	4,194	(4,194)
Outgoing Transfer			
Airport Grant Fund	14,218	-	14,218
	<u>230,124</u>	<u>\$ 270,382</u>	<u>\$ (40,258)</u>
Cash Receipts Over (Under) Expenditures	(145,777)		
UNENCUMBERED CASH, January 1, 2010	2,040		
Prior Year Cancelled Encumbrances	<u>154,381</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 10,644</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For The Year Ended December 31, 2010

**GOLF COURSE FUND**

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Dues	\$ 32,284	\$ 43,000	\$ (10,716)
Cart Shed Rent	8,585	-	8,585
Green Fees	6,122	9,250	(3,128)
Tournaments	5,017	5,161	(144)
Range Fees	1,282	-	1,282
School Fees	1,800	-	1,800
Cart Rent	765	-	765
Donations & Nonfederal Grants	6,500	6,500	-
Miscellaneous Receipts	288	400	(112)
Interest on Idle Funds	178	150	28
Clubhouse Rent	300	300	-
	<u>63,121</u>	<u>\$ 64,761</u>	<u>\$ (1,640)</u>
<b>EXPENDITURES</b>			
Personal Services	18,243	\$ 18,500	\$ (257)
Contractual Services	13,500	16,250	(2,750)
Commodities	23,059	29,750	(6,691)
Capital Outlay	8,202	-	8,202
Miscellaneous Expenditures	-	584	(584)
	<u>63,004</u>	<u>\$ 65,084</u>	<u>\$ (2,080)</u>
Cash Receipts Over (Under) Expenditures	117		
UNENCUMBERED CASH, January 1, 2010	<u>323</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 440</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For The Year Ended December 31, 2010

WASTE DISPOSAL FUND

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Waste Disposal Receipts	\$ 327,110	\$ 320,000	\$ 7,110
<b>EXPENDITURES</b>			
Personal Services	38,438	\$ 36,000	\$ 2,438
Contractual Services	36,023	206,000	(169,977)
Commodities	7,020	13,000	(5,980)
Capital Outlay	18,020	152,000	(133,980)
Debt Service			
Principal	66,424	66,425	(1)
Interest	39,162	39,163	(1)
Service Fee	3,795	3,795	-
Reserves	-	160,000	(160,000)
Miscellaneous Expenditures	-	2,808	(2,808)
Outgoing Transfer			
Equipment Reserve Fund	50,000	-	50,000
<b>Total Expenditures</b>	<b>258,882</b>	<b>\$ 679,191</b>	<b>\$ (420,309)</b>
Cash Receipts Over (Under) Expenditures	68,228		
UNENCUMBERED CASH, January 1, 2010	359,191		
UNENCUMBERED CASH, December 31, 2010	\$ 427,419		

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For The Year Ended December 31, 2010

REVOLVING LOAN GRANT FUND

	<u>Actual</u>
<b>CASH RECEIPTS</b>	
Loan Principal & Interest Received	\$      32,680
Interest on Idle Funds	<u>          561</u>
Total Cash Receipts	<u>          33,241</u>
<b>EXPENDITURES</b>	<u>                  -</u>
Cash Receipts Over (Under) Expenditures	33,241
UNENCUMBERED CASH, January 1, 2010	<u>          130,931</u>
UNENCUMBERED CASH, December 31, 2010	<u><u>          \$   164,172</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITH CENTER  
Smith Center, Kansas

Statement 3  
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For The Year Ended December 31, 2010

ECONOMIC DEVELOPMENT REVOLVING LOAN FUND

	<u>Actual</u>
<b>CASH RECEIPTS</b>	
Loan Principal & Interest Received	\$ 58,873
Interest on Idle Funds	186
Reimbursements	<u>970</u>
 Total Cash Receipts	 <u>60,029</u>
 <b>EXPENDITURES</b>	
Loan to Applicants	30,000
Bank Fees	<u>988</u>
 Total Expenditures	 <u>30,988</u>
 Cash Receipts Over (Under) Expenditures	 29,041
 UNENCUMBERED CASH, January 1, 2010	 <u>30,529</u>
 UNENCUMBERED CASH, December 31, 2010	 <u><u>\$ 59,570</u></u>

The notes to the financial statements are an integral part of this statement.



**CITY OF SMITH CENTER  
Smith Center, Kansas**

**Statement 4**

**SUMMARY OF CASH RECEIPTS AND CASH DISBURSEMENTS  
For The Year Ended December 31, 2010**

**AGENCY FUNDS**

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Payroll Clearing Fund	<u>\$ 6,444</u>	<u>\$ 193,273</u>	<u>\$ 191,185</u>	<u>\$ 8,532</u>

**The notes to the financial statements are an integral part of this statement.**

**CITY OF SMITH CENTER**  
**Smith Center, Kansas**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The City of Smith Center, Kansas, the primary government, was incorporated in 1872, and operates as a third-class city in accordance with the laws of the State of Kansas. The City operates under a mayor-council form of government and provides the following services: public safety (police and fire protection), highways and streets, water, sewer, sanitation, health and social services, culture and recreation services, planning and zoning, public improvements, and general administrative services.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Housing Authority, Library, and Recreation Commission are component units of the City. Financial information for the component units have not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with generally accepted accounting principles.

The governing bodies of the following are appointed by the City:

- 1) **Housing Authority.** The City of Smith Center Housing Authority operates the City's housing projects. The housing authority can sue and be sued, and can buy, sell, or lease real property. Bond issuance must be approved by the City.
- 2) **Library.** The City of Smith Center Library Board operates the City's Public Library. Acquisition or disposition of real property by the board must be approved by the City. The City levies taxes for the Library. Bond issuances must be approved by the City.
- 3) **Recreation Commission.** The City of Smith Center Recreation Commission oversees recreation activities. The Recreation Commission operates as a separate governing body, but the City levies the taxes for the Recreation Commission and the Recreation Commission has only the powers granted by statute, K.S.A. 12-1928.

The Housing Authority's audited financial statements and the Library Board and Recreation Commission's unaudited financial statements can be obtained from the City Clerk.

## **FUND ACCOUNTING**

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary. Within each of these three categories there are one or more fund types. The City uses the following fund types:

### **Governmental Type Funds**

**General Fund**--The general fund is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds**--Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes only.

**Debt Service Funds**--Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

### **Proprietary Type Funds**

**Enterprise Funds**--Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

### **Fiduciary Type Funds**

**Private Purpose Trust Funds**--Private purpose trust funds generally are used to report trust agreements where both the principal and interest benefit individuals, private organizations, and other governments. The income is not being used by the City.

**Agency Funds**--Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

## **BASIS OF ACCOUNTING**

**Statutory Basis of Accounting**--The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

**Departure from Accounting Principles Generally Accepted in the United States of America--** The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

## **LEAVE POLICIES**

### **Vacation Leave**

All full-time employees of the City are entitled to paid vacation. After one full year of employment, employees are entitled to five working days of paid vacation. At the end of two years employment, employees are entitled to ten working days paid vacation. At the end of fifteen years employment, employees are entitled to fifteen working days of paid vacation. Unused vacation days cannot be carried over to the following year unless approved by the City Council. The City Council did not approve any vacation to be carried over to 2010. Therefore, there are no liabilities for vacation leave recorded or estimated as of December 31, 2010.

### **Sick Leave**

After a six month probationary period, employees are given one day sick leave for each month of employment. A total of ninety days sick leave can be accumulated. Part-time employees and temporary employees are not entitled to sick leave unless approved by the City Council. No sick leave exceeding three days will be allowed unless a statement from a doctor certifies that the illness prevented the employee from working. (This is at the discretion of the supervisor). Holiday pay will be paid if an employee is sick on a Holiday. Unused sick leave will not be paid at termination of employment. Therefore, there are no liabilities for sick leave recorded or estimated at December 31, 2010.

## **REIMBURSEMENTS**

Reimbursements are defined as repayments of amounts remitted on behalf of another party. All reimbursements shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursement was directly tied to the amount of the original cash disbursement.

## **2. BUDGETARY INFORMATION**

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The General Operating, Equipment Reserve, Golf Course, Airport and Waste Disposal Funds were amended during the year ended December 31, 2010.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, fiduciary funds, permanent funds, and the following:

Special Revenue Funds  
    Golf Course Donation Fund  
    Playground Equipment Fund  
    Airport Grant Fund  
Enterprise Funds  
    Water Improvement Fund

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### **3. PROPERTY TAXES**

Property taxes are levied November 1<sup>st</sup> of the calendar year. A lien is placed on the property when the taxes are levied. The taxes are due ½ on December 20<sup>th</sup> and ½ the following May 10<sup>th</sup>. Any taxes unpaid at the due dates are considered delinquent. Collection of the current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year: such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operation of the City and therefore are not susceptible to accrual.

It is not practical to apportion delinquent taxes held by the County Treasurer at the end of the audit period and, further, the amounts thereof are not material to the financial statements taken as a whole.

### **4. COMPLIANCE WITH KANSAS STATUTES**

- A. During the year ending December 31, 2010, fund encumbrance records were not maintained as required by K.S.A. 10-1117, which requires the clerk to keep a record of all indebtedness and contracts creating a liability against the City.
- B. No other statutory violations by the City have been identified.

### **5. CASH BASIS EXCEPTION**

- A. The City received a Federal Aviation Administration (FAA) Grant. The grant document requires the City to expend the monies before they can request reimbursement, which caused the City to have negative unencumbered cash in the Airport Grant Fund at December 31, 2010. K.S.A. 12-1664 provides an exception for a cash basis law violation for the intergovernmental grant funds to expend monies for grant purposes with the expectation of monies to be reimbursed to the City under conditions of the grant award.

## **6. DEPOSITS AND INVESTMENTS**

As of December 31, 2010, the City of Smith Center had no investments other than certificates of deposit, which are considered deposits under GASB Statement No. 3. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

### **Concentration of Credit Risk**

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during the designated "peak periods" when required coverage is 50%. The City's designated "peak periods" are May 1<sup>st</sup> through June 29<sup>th</sup> and September 1<sup>st</sup> through October 30<sup>th</sup> at The Peoples Bank and January 20<sup>th</sup> through March 21<sup>st</sup> and July 20<sup>th</sup> through May 18<sup>th</sup> at First National Bank. All deposits were legally secured at December 31, 2010.

At December 31, 2010, the City's carrying amount of deposits was \$1,529,522 and the bank balance was \$1,554,889. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance \$639,233 was covered by federal depository insurance, \$915,656 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

### **Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

## 7. INTERFUND TRANSFERS

Operating transfers were as follows:

Transfer From	Transfer To	Statutory Authority	Amount
Water Fund	Water Improvement Fund	K.S.A. 12-825d	58,475
Airport Fund	Airport Grant Fund	K.S.A. 12-825d	14,218
Waste Disposal Fund	Equipment Reserve Fund	K.S.A. 12-825d	50,000

Equity transfers were as follows:

Transfer From	Transfer To	Amount
Bond & Interest Fund	General Operating Fund	\$ 13,414

## 8. DEFINED BENEFIT PENSION PLAN

### Plan Description

The City of Smith Center contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

### Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established for 2010, which includes pension contributions and Group Death Disability Insurance was 7.14%. The employer contributions to KPERS for the years ending December 31, 2010, 2009, and 2008 and were \$38,038, \$34,474, and \$26,164, (which includes the amount reimbursed from the Housing Authority), respectively, equal to the required contributions for each year as set forth by the legislature.



## **9. OTHER POST EMPLOYMENT BENEFITS**

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

The American Recovery and Reinvestment Act of 2009 (ARRA), as amended, provides for premium reductions for health benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985, commonly called CPBRA. The premium assistance is also available for continuation coverage under certain State laws. "Assistance Eligible Individuals" pay only 35% of the COBRA premiums; the remaining 65% is reimbursed to the coverage provider through a tax credit. The premium reduction applies to periods of health coverage that began on or after February 17, 2009 and lasts for up to fifteen months.

## **10. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the City purchases commercial insurance.

During the year ended December 31, 2010, the City did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

## **11. RELATED PARTY TRANSACTIONS**

The City of Smith Center includes the Housing Authority employees in its payroll and the Housing Authority reimburses the City. The amount of the reimbursement for the year ended December 31, 2010 was \$61,521.

The City has a note receivable from Simmons Rentschler Mortuary, which is partially owned by Councilmen Rentschler, through the Economic Development Fund. The balance of the note at December 31, 2010 was \$24,358.

## 12. LONG-TERM DEBT

Changes in long-term liabilities for the City for the year ended December 31, 2010, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance 1/1/2010	Additions	Reductions/ Payments	Balance 12/31/2010	Interest/ Service Fee Paid
<b>Capital Leases</b>									
F-150 Supercab 4x4 Pickup	5.00%	2007	\$ 18,836	2010	\$ 6,588	\$ -	\$ 6,588	\$ -	\$ 328
Patrol Car	5.00%	2007	23,130	2010	8,076	-	8,076	-	412
Fire Truck	1.00%	2008	144,929	2018	130,436	-	14,493	115,943	1,315
Loader	2.97%	2009	40,000	2012	40,000	-	12,945	27,055	1,188
Patrol Car	2.95%	2010	23,458	2013	-	23,458	-	23,458	-
Backhoe	2.00%	2010	30,000	2013	-	30,000	-	30,000	-
Total Capital Leases			280,353		185,100	53,458	42,102	196,456	3,243
<b>KDHE Loan</b>									
Wastewater Project Loan	2.83%	2004	1,661,831	2027	1,534,412	-	66,424	1,467,988	42,957
<b>TOTAL LONG-TERM DEBT</b>			<b>\$ 1,942,184</b>		<b>\$ 1,719,512</b>	<b>\$ 53,458</b>	<b>\$ 108,526</b>	<b>\$ 1,664,444</b>	<b>\$ 46,200</b>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

Year	Capital Leases		KDHE Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 45,219	\$ 3,218	\$ 68,317	\$ 41,064	\$ 113,536	\$ 44,282
2012	46,032	2,261	70,264	39,117	116,296	41,378
2013	32,740	1,275	72,267	37,114	105,007	38,389
2014	14,493	688	74,327	35,055	88,820	35,743
2015	14,493	543	76,445	32,937	90,938	33,480
2016-2020	43,479	760	416,173	130,734	459,652	131,494
2021-2025	-	-	478,957	67,950	478,957	67,950
2026-2027	-	-	211,238	7,525	211,238	7,525
	<u>\$ 196,456</u>	<u>\$ 8,745</u>	<u>\$ 1,467,988</u>	<u>\$ 391,496</u>	<u>\$ 1,664,444</u>	<u>\$ 400,241</u>

### 13. ECONOMIC DEVELOPMENT REVOLVING FUND/REVOLVING LOAN GRANT FUND

In connection with the Economic Development Revolving Fund and the Revolving Loan Grant Fund, the City has loaned local businesses monies. Principal and interest received from borrowers is required to be re-loaned to additional eligible borrowers as funds become available.

Business	Interest Rate	Date Issued	Original Amount	Outstanding 1/1/2010	Loaned	Principal Payments	Outstanding 12/31/2010	Interest Received 2010
Repair	5%	07/23/03	\$ 8,000	\$ 817	\$ -	\$ 817	\$ -	\$ 15
Restaurant	5%	05/10/04	48,400	22,333	-	4,286	18,047	914
Retail	5%	09/01/05	45,000	34,381	-	2,807	31,574	1,559
Construction	5%	12/13/05	16,000	3,217	-	3,217	-	72
Restaurant	5%	01/18/07	20,000	8,740	-	3,818	4,922	349
Retail	5%	04/02/07	70,000	52,882	-	3,971	48,911	2,540
Retail	5%	04/03/07	45,000	32,309	-	4,107	28,202	1,125
Service	5%	08/10/07	59,000	31,929	-	7,571	24,358	1,430
Retail	0-5%	01/08/09	40,000	35,721	-	4,668	31,053	-
Manufacturing/Retail	0-5%	01/16/09	100,000	90,000	-	13,000	77,000	-
Retail	0-5%	02/13/09	15,000	14,685	-	994	13,691	706
Manufacturing/Retail	0-5%	02/27/09	150,000	132,459	-	25,337	107,122	-
Retail	0-5%	03/18/09	40,000	36,888	-	4,668	32,220	-
Retail	0-5%	09/11/09	8,500	7,997	-	1,073	6,924	371
Retail	0-5%	12/29/09	10,000	10,000	-	1,114	8,886	-
Retail	0-5%	06/30/10	10,000	-	10,000	600	9,400	-
Retail	0-5%	11/05/10	20,000	-	20,000	424	19,576	-
Totals			<u>\$ 704,900</u>	<u>\$ 514,358</u>	<u>\$ 30,000</u>	<u>\$ 82,472</u>	<u>\$ 461,886</u>	<u>\$ 9,081</u>



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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 8, 2011

Mayor and City Council  
City of Smith Center, Kansas  
119 W Court  
Smith Center, KS 66967

We have audited the accompanying financial statements of the City of Smith Center, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents, and have issued our report thereon dated September 8, 2011. Our report on the financial statements disclosed that, as described in Note 1 to the financial statements, the City of Smith Center prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the guidance in the Kansas Municipal Audit Guide.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Smith Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Smith Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Smith Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements

Mayor and City Council  
City of Smith Center, Kansas  
Page Two  
September 8, 2011

will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2010-1).

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies (2010-2 and 2010-3).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Smith Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2010-4.

We noted certain other matters that we reported to management of the City of Smith Center in a separate letter dated September 8, 2011.

The City of Smith Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Smith Center's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Certified Public Accountants

Phillipsburg, Kansas  
September 8, 2011



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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 8, 2011

Mayor and City Council  
City of Smith Center, Kansas  
119 W Court  
Smith Center, KS 66967

### **Compliance**

We have audited the compliance of the City of Smith Center, Kansas with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. The City of Smith Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Smith Center's management. Our responsibility is to express an opinion on the City of Smith Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Smith Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Smith Center's compliance with those requirements.

In our opinion, the City of Smith Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Mayor and City Council  
City of Smith Center, Kansas  
September 8, 2011  
Page Two

**Internal Control Over Compliance**

Management of the City of Smith Center, Kansas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Smith Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Smith Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-5. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Smith Center's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Smith Center's response and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

Respectfully submitted,



Certified Public Accountants

Phillipsburg, Kansas  
September 8, 2011

## CITY OF SMITH CENTER, KANSAS

Schedule 1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2010**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Transportation</b>			
Airport Improvement Program	20.106	320007605	\$ 38,341
Airport Improvement Program	20.106	320007607	1,063,006
Airport Improvement Program	20.106	320007609	57,760
Airport Improvement Program	20.106	320007610	<u>9,213</u>
<b>Total U.S. Department of Transportation</b>			<u><b>1,168,320</b></u>
<b>Total Federal Awards</b>			<u><u><b>\$ 1,168,320</b></u></u>

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Awards includes the federal grant activity of the City of Smith Center, Kansas and is presented on the cash basis of accounting. The information presented in this schedule is in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the basic financial statements.

See accompanying notes to Schedule of Expenditures of Federal Awards.



CITY OF SMITH CENTER, KANSAS

Schedule 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010

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SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

---

**FINANCIAL STATEMENTS**

Type of auditor's report issued:

In accordance with the statutory basis of accounting described in Note 1 to  
the financial statements. Unqualified

Internal control over financial reporting:

- Material weaknesses identified? x Yes    No
- Significant deficiencies identified that are not considered to be  
material weaknesses? x Yes    None reported
- Noncompliance material to financial statements noted? x Yes    No

**FEDERAL AWARDS**

Internal control over major programs:

- Material weaknesses identified?    Yes x No
- Significant deficiencies identified that are not considered to be  
material weaknesses? x Yes    None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in  
accordance with section 510(a) of OMB *Circular A-133*? x Yes    No

Identification of major programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and  
type B programs: \$300,000

Auditee qualified as low-risk auditee?    Yes x No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010

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SECTION II – FINANCIAL STATEMENT FINDINGS

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Material Weakness

2010-1 Material Audit Adjustments

**Condition:** Certain year-end adjustments were not created by the City, resulting in the need for adjustments to the financial statements in amounts that were material to the financial statements.

**Criteria:** The City is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a trial balance, from which the basic financial statements are derived.

**Cause:** Internal controls did not detect all adjustments necessary to properly record year-end balances.

**Effect:** The City's book and records were initially misstated by amounts that were material to the financial statements. Accordingly, audit adjustments were necessary in order to state certain accounts to the proper year-end balance.

**Recommendations:** We recommend that the City review all funds at year-end to ensure that amounts recorded are accurate and make necessary adjustments.

**Views of Responsible Officials and Planned Corrective Actions:** We concur with the recommendation.

Significant Deficiencies

2010-2 Segregation of Duties

**Condition:** The same employee performs some accounting duties and procedures that should be segregated.

**Criteria:** Segregation of duties should be maintained to strengthen internal control over accounting and compliance functions.

**Cause:** Because the entity is small, management does not feel it is feasible to hire more staff.

**Effect:** Lack of segregation of duties increases the risk of errors and noncompliance occurring and not being detected in a timely manner.

**Recommendations:** Duties of key financial and compliance personnel should be evaluated to determine if duties could be segregated.

**Views of Responsible Officials and Planned Corrective Actions:** We concur with the recommendation. However, the size of the entity does not make it practical to have sufficient number of employees to achieve the optimum level of internal control.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010**

**2010-3 Financial Statement Preparation**

**Condition:** Management does not have the qualifications and training necessary to prepare the financial statements which would include the related footnote disclosures.

**Criteria:** Management must have controls over the preparation of the financial statements including footnote disclosures which would prevent or detect an omission/misstatement in the financial statements.

**Cause:** There are no procedures in place that require management to obtain the necessary qualifications and training.

**Effect:** The control deficiency allows for omission/misstatements in the financial statements including footnotes that may not be prevented, detected, or corrected.

**Recommendations:** Management would need to attend training classes and annual continuing education classes to gain an understanding on proper and complete preparation of the financial statements and footnote disclosures and to be aware of all of the current accounting standards by purchasing annual accounting subscriptions.

**Views of Responsible Officials and Planned Corrective Actions:** We concur with the recommendation. However, the cost of annual subscription services and the continuing education/training classes do not make it practical to obtain the competency and expertise required to correct the deficiency.

**2010-4 Statute Violation**

**Condition:** The City did not maintain fund encumbrance records as required by K.S.A. 10-1117.

**Criteria:** K.S.A. 10-1117 requires the Clerk to keep a record of all indebtedness and contracts creating a liability against the City throughout the year.

**Cause:** Encumbrances made by the client were not posted to the accounting records correctly at the end of the year.

**Effect:** The City's books and records were misstated by amounts that were material to the financial statements. Accordingly, audit adjustments were necessary to properly state encumbrances at year-end.

**Recommendation:** We recommend that the City review all contracts and purchase orders at year-end to ensure that all encumbrances have been recorded on the City's books in the correct period.

**Views of Responsible Officials and Planned Corrective Action:** We concur with the recommendation and will review contracts and invoices at year-end to determine the need for encumbrances. We will also ensure that the entries are made in the correct period.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2010**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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**1. Internal control findings:**

**2010-5 Segregation of Duties**

**Program: CFDA #20.106 – Airport Improvement Program – Year ended December 31, 2010**

**Condition: The limited staff size does not provide for adequate separation of duties.**

**Criteria: Segregation of duties should be maintained to strengthen internal control over accounting and compliance functions.**

**Cause: Because the entity is small, management does not feel it is feasible to hire more staff.**

**Effect: Lack of segregation of duties increases the risk of errors and noncompliance occurring and not being detected in a timely manner.**

**Recommendations: Duties of key financial and compliance personnel should be evaluated to determine if duties could be segregated.**

**Views of Responsible Officials and Planned Corrective Actions: We concur with the recommendation. However, the size of the entity does not make it practical to have sufficient number of employees to achieve the optimum level of internal control.**

**2. Compliance findings – None found.**

**3. Questioned costs – None found.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2010**

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**SECTION IV – SUMMARY SCHEDULE OF PRIOR FEDERAL AWARDS AUDIT FINDINGS**

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**Department of Transportation – CFDA #20.106 Airport Improvement Program**

**2009-5 Segregation of Duties**

**Condition:** The limited staff size does not provide for adequate separation of duties.

**Recommendation:** Duties of key financial and compliance personnel should be evaluated to determine if duties could be segregated.

**Current status:** The size of the entity does not make it practical to have a sufficient number of employees to achieve the optimum level of internal control.

**2009-7 Cash Management**

**Condition:** The City obtained advances of federal grants based on invoices they had received, however, some disbursements were not paid for several weeks after receiving the advances. All advances were put into a noninterest bearing bank account, therefore, no interest was earned by the City on the grants.

**Recommendation:** We recommend that the City pay disbursements within 3-5 days of the receipt of the grant money.

**Current status:** The City made disbursements timely correcting this deficiency.

**2009-8 Davis-Bacon Act**

**Condition:** The City was missing some of the weekly certified payrolls for the contractor and subcontractors, as required by the Davis-Bacon Act.

**Recommendation:** We recommend that the City obtain the certified payrolls from the engineers at least monthly and verify that the prevailing wage rates were paid as required by the Davis-Bacon Act.

**Current Status:** Based on current year testing, missing certified payrolls were obtained for both the prior year and current year.